

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-15 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-10 PA-02 PRS-01 DLOS-06
SAL-01 /122 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3952

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EO 11652: N/A

TAGS: ENRG, PE

SUBJ: PERU PUBLISHES NEW PETROLEUM LAWS

REF: LIMA 1625

1. SUMMARY: GOP HAS APPROVED THREE IMPORTANT NEW LAWS IN PETROLEUM SECTOR. THESE LAWS, DESIGNED TO ENCOURAGE FOREIGN OIL COMPANIES TO LOOK MORE FAVORABLY ON OPERATING IN PERU, SET LEGAL BASES FOR: (A) SECONDARY RECOVERY CONTRACTS; (B) NEW OIL EXPLORATION AND EXPLOITATION IN JUNGLE AND OFF-SHORE; (C) FAVORABLE TAX SITUATION FOR PETROLEUM INDUSTRY. EARLY INDICATIONS SUGGEST THAT SOME U.S. COMPANIES ARE INTERESTED. END SUMMARY.

2. AFTER A LONG WAITING PERIOD, PERU'S COUNCIL OF MINISTERS ON MARCH 1 FINALLY APPROVED LEGAL BASES FOR PETROPERU TO NEGOTIATE CONTRACTS FOR SECONDARY RECOVERY OF OIL FROM OIL FIELDS IN NORTHWESTERN PERU. COUNCIL ALSO APPROVED LONG-AWAITED NEW PERU MODEL CONTRACT FOR OIL EXPLORATION AND EXPLOITATION ON THE CONTINENTAL SHELF AND IN THE JUNGLE, AND IN COMPLEMENTARY FASHION PUBLISHED NEW TAX LAWS WHICH ARE DESIGNED TO ENCOURAGE ABOVE ACTIVITIES. HIGHLIGHTS ARE:

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A. SECONDARY RECOVERY. SECONDARY RECOVERY IN NORTHWESTERN PERU HAS BEEN DIVIDED IN TWO SECTORS: (1) LA BREA-PARINAS AND (2) LOBITOS-EL ALTO-LOS ORGANOS. IN SECTOR (1) POTENTIAL CONTRACTORS MUST BE LAFTA COMPANY, WHILE U.S. COMPANIES ELIGIBLE FOR SECTOR (2). TERM OF CONTRACT IS FOR 15 YEARS.

B. NEW EXPLORATION AND PRODUCTION. NEW CONTRACTS FOR CONTINENTAL SHELF AND JUNGLE ARE VERY SIMILAR. CONTRACTS WILL HAVE THREE PHASES: (1) GEOLOGICAL AND GEOPHYSICAL EXPLORATION, (2) EXPLORATORY DRILLING, AND (3) PRODUCTION. CONTRACTORS WILL COVER AT THEIR OWN RISK 100 PERCENT OF EXPLORATION AND PRODUCTION COSTS, AND WILL BE REPAID EITHER IN CRUDE OR CASH AS THEY PREFER.

C. TAX LAWS. NEW TAX LAW EXEMPTS CRUDE EXPORTS FROM TAXATION FOR A TEN-YEAR PERIOD. NET TAXES ON REMITTANCES ARE REDUCED FROM 30 PERCENT TO 20 PERCENT. GENERAL THRUST OF NEW TAX LEGISLATION SEEMS TO BE IN DIRECTION OF SIMPLIFICATION, AND TO ENCOURAGE EXPANSION OF FOREIGN OIL COMPANIES' ACTIVITIES IN PERU.

3. COMMENT: EMBASSY HAS LEARNED THAT AT LEAST SOME U.S. COMPANIES HAVE EXPRESSED AN INTEREST IN UNDERTAKING OPERATIONS IN PERU. WE ARE AIRPOUCHING COPIES OF NEW PETROLEUM INDUSTRY LEGISLATION TO ARA/AND/P AND ARE PREPARING FURTHER ANALYSIS TO BE SUBMITTED BY AIRGRAM.
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